

# City of Detroit

## CITY COUNCIL

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ANNE MARIE LANGAN  
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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: February 17, 2009

RE: Review of Mayor Cockrel's Budget Deficit Reduction Plan

Mayor Kenneth Cockrel, Jr. and Chief Financial Officer Joseph Harris presented a budget deficit reduction plan to your Honorable Body on Friday, January 30, 2009. A copy of the plan is attached.

The plan was referred to the Fiscal Analysis Division for review. This memorandum provides our analysis of the Mayor's deficit reduction plan.

### General Description of the Deficit Reduction Plan

The Administration estimates the City of Detroit is facing a \$300 million budget deficit. We applaud the Administration for coming up with a more realistic number for the deficit in such a short period of time. Mr. Harris uses a "cash basis" approach in deriving his estimate. At some point, we hope Mr. Harris would analyze budgeted revenues and appropriations more closely to maybe adjust his estimate.

We state this because the Fiscal Analysis Division submitted a report this past Monday indicating we estimate the budget deficit for the City to be \$225 million, which is primarily based on analyzing budgeted revenue and expenditure accounts. If we may be a little humorous, our estimate is below the Administration's estimate for the first time since we started doing formal budget surplus/deficit estimates, going back to fiscal year 2002-03, or almost six years ago! At any rate, whether the overall deficit is \$225 million or \$300 million, it is a huge number, and it is going to take a tremendous effort on the part of the Mayor, City Council, union and non-union employees to address this deficit.

To address the Administration's \$300 million deficit estimate, Mayor Cockrel's deficit reduction plan anticipates generating new revenues and cost savings to the tune of \$369 million, of which \$356 million would be realized in fiscal year 2009-10, and \$13 million in 2010-11. A summary breakdown is provided below.

| <u>Description</u>                           | <u>Total (in 000's)</u> |
|--|-------------------------|
| <u>Year 2010 items:</u>                      |                         |
| - New revenues (1)                           | \$20,000                |
| - Eliminations (2)                           | 6,500                   |
| - Concessions (3)                            | 48,600                  |
| - Layoffs (4)                                | 4,407                   |
| - Operational savings (5)                    | 26,394                  |
| - Monetization of assets (7)                 | 250,000                 |
| Total of Year 2010 items                     | <u>\$355,901</u>        |
| <u>Year 2011 items:</u>                      |                         |
| - Eliminations (2)                           | \$9,000                 |
| - Operational savings (6)                    | 4,000                   |
| Total of Year 2011 items                     | <u>\$13,000</u>         |
| Total Items to Address \$300 Million Deficit | <u><u>\$368,901</u></u> |

- (1) Enhanced collections; increased fines, fees and reimbursements.
- (2) Crime lab and Cobo Center closures.
- (3) Uniform, civilian and non-union 10% wage cut.
- (4) 51 layoffs.
- (5) Savings thru efficiency studies and external/internal cost saving measures.
- (6) Income tax merged with State and reduction of risk management costs.
- (7) Monetization of Detroit tunnel, Municipal Parking and Public Lighting.

Of the \$369 million total, \$250 million from the monetization of assets would address the accumulated deficit and \$119 million would reduce the structural imbalance.

#### General Observations Concerning the Deficit Reduction Plan

The Mayor's deficit reduction plan contains some innovative ideas, but most are not new. Most components of the plan are what ifs in a very preliminary developmental stage; therefore, many details are unavailable at this time.

Mayor Cockrel mentioned in his message concerning the plan that many of the revenue-raising opportunities may be incorporated in his proposed 2009-10 budget. We assume that much of the proposed cost-saving measures will also be included in the proposed budget. If so, we hope more details will be provided for your Honorable Body's review and consideration for the budget process. In fact, we respectfully urge the Administration to provide City Council as much detail as possible before the budget process so that your Honorable Body is not inundated with materials during the budget process.

We also note that the plan proposes nothing to be implemented in the current fiscal year to reduce the accumulated deficit. This puts more pressure on the

City to get initiatives started on day one of the 2009-10 fiscal year to fully realize the revenue-raising measures and cost savings anticipated.

Meanwhile, unfortunately we do not expect the 2008 CAFR being done for the development of the 2009-10 budget. Consequently, it will be imperative for the Administration to provide the most accurate estimate of the accumulated deficit as of June 30, 2008 and a comprehensive surplus/deficit analysis for the 2008-09 fiscal year for the development of the 2009-10 budget to better determine the size and amount of initiatives needed from the deficit reduction plan to address the deficit.

### Monetization of Asset Proposals

The lion share of the Mayor's deficit reduction plan is the one-time revenue generation of \$250 million from the monetization of assets to address the accumulated deficit. These ideas are extremely preliminary because no formal request for proposals has gone out.

But based on the preliminary information, it appears the generation of \$250 million will require present value calculations of revenue streams to be taken over a 50 to 75-year period to realize this level of one-time cash. One major caveat, however, is the outstanding debt service and capital improvement requirements on the leased assets that could significantly lower the amount of cash generated from the proposals in order for the investor to earn a reasonable return on investment.

Of course, any long-time revenue and expenditure forecasts must eliminate the revenue sources that are "captured" for the monetization proposals. This will further reduce available resources, making it harder to align expenditures with revenues.

A second major caveat is that state law may limit concessionaire agreements to 30 years in length, based on information from tunnel deal discussions under the previous Administration. And thirdly, the development of these proposals could take a long time to finalize agreements, again based on the last tunnel deal proposal. It may be a bit optimistic for Mayor Cockrel to assume that monetization negotiations and contracts with selected firms will be completed by December 2009.

More specifically, it just seems hard to achieve \$100 million from a Detroit-side tunnel monetization when the last deal talked about raising \$75 million in a better financial climate. Furthermore, the monetization of parking facility and meter revenue is expected to generate \$75 million, even when there may be \$50 million in outstanding debt. Lastly, it truly seems optimistic to receive \$75 million from monetizing the public lighting power production revenue when the City uses its own power on a very limited basis since it is cheaper generally to purchase

power on the grid, and without the City taking a huge hit for deferred maintenance as so few capital projects have been completed to maintain the infrastructure.

Obviously, many more details are needed to feel more comfortable about the monetization of asset proposals. Unfortunately, if the Mayor includes these proposals in his 2009-10 budget, and your Honorable Body continues to feel unsure about them, the Council will not be able to replace \$125 million (maximum amount per state law) of the \$250 million with fiscal stabilization bonds since it is now virtually impossible to sell these bonds given the market, the City's junk bond status and the exorbitant interest rates the City would pay on these bonds.

### 10% Wage and Salary Concessions

A large number of layoffs would be imminent if unions do not accept the 10% pay cut. Unfortunately, the 10% pay cut should be considered permanent, based on declining revenues. The 10% cut should only be restored when it is clear for a few consecutive years that the structural imbalance has been cured.

In addition, \$25 million of the \$48 million saved based on the 10% wage cut is based on uniform unions accepting the pay cut, which seems unlikely based on history.

### Operational Savings

Details on departmental operational savings already proposed in the deficit reduction plan along with the "plan B" should the unions not agree to salary reductions need to be worked out in much greater detail. Details should include the identification of service reduction or elimination.

We have a couple of observations worth noting. In-house studies in DDOT to identify efficiencies and cost-cutting measures should be completed before the Mayor presents his proposed 2009-10 budget to City Council on April 13<sup>th</sup>. The Mayor's deficit reduction timeline had DDOT studies done in April.

In addition, it may not be wise to defer the implementation of the Human Resources Management System, or new payroll system, since we assume there is a legal settlement between the Lieutenants and Sergeants Association and the City, which promised a new payroll system within a certain timeframe.

### Other Revenue Generation Ideas

Based on Mayor's deficit reduction plan timeline, Council needs to consider much detail before the upcoming budget process, including:

- A request to increase in parking fees and fines;
- A request to restructuring of police-authorized towing process;
- A request for proposals for a firm to provide collections of delinquent fines and taxes; and
- A request for a firm to perform a dependency audit.

### Eliminations

Savings from eliminations depend on City's ability to close the Police Crime Lab and allow for the regionalization of Cobo Center.

### Council's Action on Deficit Reduction Plan

Based on our review of state law and the Stecher versus City Council court case, it does not appear that your Honorable Body needs to formally adopt Mayor Cockrel's deficit reduction plan.

Under the revised Municipal Finance Act and the State Revenue Sharing Act, it appears a deficit elimination plan is required when there is a known deficit condition when a municipality ends its fiscal year based on a CAFR. Per the State Revenue Sharing act, the City Council must adopt the plan via resolution, which is submitted to the State Treasury along with the plan. Unfortunately, both the 2007 and 2008 CAFRs are not completed.

The Uniform Budgeting and Accounting Act is more nebulous. Our read of the act requires the chief administrative officer or legislative body to submit a plan to the legislative body with recommendations, which if adopted by the legislative body, would bring revenues in line with expenditures when revenues do not appear to meet expenditures for that fiscal year. Recommendations include reducing appropriations or increasing revenues, or both to address the shortfall in the current fiscal year. In addition, the recommendations must recognize the requirements of state law and the provisions of collective bargaining agreements.

The deficit reduction plan that is currently before your Honorable Body does not specifically identify the level of current year revenues that are insufficient to cover current year expenditures. This seems to be a technicality, but this is our layperson's read of the state law.

Under the Stecher versus City Council case, the court ruled when the Mayor must address a deficit, he or she must submit a budget reduction plan to the Council prior to implementation, but that once it is submitted to Council, the administration implements it without City Council approval. The Mayor's plan could be revised based on alternative proposals given by the Council, but it appears the Mayor is not bound to incorporate Council's alternatives. We also do not believe there was any time period imposed by the courts between submission of the plan to Council and actual implementation. So,

implementation could take place immediately after submission, and no Council approval is required.

We suggest that Council ask the Research and Analysis Division to opine on the state laws and court described above to see if their legal interpretation agrees with or does not agree with our layperson's analysis.

Therefore, in our humble opinion, Mayor Cockrel's deficit reduction plan is primarily a preview of what is to come in the 2009-10 proposed budget, and hence, does not require City Council's formal approval. This is no disrespect to the gargantuan task set before the Mayor and the Chief Financial Officer to come up with this plan in such a short time to deal with the City's huge deficit. Obviously, a lot of hard work was put into preparing this plan.

### Conclusion

We recommend that your Honorable Body receive Mayor Cockrel's deficit reduction plan to address a pending \$300 million deficit the City of Detroit is facing as a well-thought-out plan, with the recognition that the plan contains a lot of what if proposals that need development of specific details. We also recommend that City Council view this plan as a preview document of the Mayor's upcoming 2009-10 budget proposal.

We understand that the Administration continues to work hard on the details of the plan and hopes to have a final 2007 CAFR and a preliminary 2008 CAFR to assist in the 2009-10 budget development process.

We continue to be concerned, however, that no savings are projected to start this fiscal year, and that it is very likely that the entire \$250 million from the monetization of asset deals cannot be counted as revenue in 2009-10 to cure the accumulated deficit. There is little doubt in our analysis that reductions in expenditures are required, and sooner, rather than later, to address both the structural budget problems and the longer term elimination of the accumulated deficit.

### Attachment

cc: Council Divisions  
Auditor General's Office  
Mayor Kenneth Cockrel, Jr.  
Saul Green, Deputy Mayor  
Joseph Harris, Chief Financial Officer  
Pamela Scales, Budget Director  
Arese Robinson, Mayor's Office

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**City of Detroit**  
**Budget Deficit Reduction Plan**  
*January 30, 2009*

**RESTORING DETROIT'S FISCAL STABILITY**

**Statement of Detroit Mayor Kenneth Cockrel, Jr.**

Last fall, shortly after I took office as mayor, I ordered an immediate review of the City's financial operations under the leadership of Chief Financial Officer Joe Harris. I needed to know the status of the City of Detroit's current and projected income, expenses and financial reporting to the state and federal government as required by law. I also needed to determine the integrity of our financial management and accounting processes. Our financial team quickly determined that the City of Detroit faced a massive deficit for the current fiscal year. The true nature of the City's fiscal realities had been concealed from the City Council and the public. A lack of transparency combined with irresponsible fiscal practices created financial irregularities and the growing debt that we recently uncovered.

We were left with deficit projections from the prior administration of between \$0 and \$60 million dollars. Our ongoing investigation has revealed a deeper and very sobering reality. The City's General Fund, which had a small surplus in 2002, now has an accumulated deficit estimated to be as much as \$300 million. More than \$100 million of liabilities due in fiscal year 2008 remained unpaid at the beginning of fiscal year 2009. In addition, the annual financial audit from 2007 was past due. We are now in the process of completing the past due audits along with identifying corrective measures that will allow us to submit future audits on a timely basis.

Detroit's present situation demands a sound deficit reduction strategy and the establishment of fiscal controls and priorities that directly address our fiscal challenges. We need, and my administration is prepared to present, realistic solutions – many of which have proven successful in other major cities. Here in the City of Detroit, I'm calling for the same level of personal and institutional responsibility, fact-facing and truth-telling that President Obama spoke of during his inaugural address.

The budget deficit reduction plan I am presenting today provides responsible financial leadership that will put us on the road to stabilizing Detroit's finances. My administration's goal is to eliminate the City's accumulated deficit, as well as remedy our structural budget imbalance. We will stop the practice of spending more than we take in. Our plan calls for fundamental reform that will lower the cost of government while continuing to provide essential services. My administration's plan will set in place financial standards and procedures that will make city government more transparent and more accountable – changes that will better serve the people of Detroit for many years to come.

Times are tough and our city is in a precarious financial position. As a municipality, we have a unique opportunity to restructure city government. We face one of the most critical crossroads in our city's history. We don't have time to look back, nor should we. We must move forward, restoring our citizens' faith in their government and restoring Detroit's credibility in the eyes of the nation and the world.



This plan will require sacrifice on the part of city government, its workers and its leaders. Just as businesses and families are cutting back in the face of financial challenges, city government must do the same. In his Inaugural Address, President Obama spoke of workers who were willing to cut their own pay in order to save the jobs of their coworkers. Here in Detroit, we must ask the same of our city workers.

If each of our current workers are willing to accept a ten-percent reduction in their paychecks, we can limit initial layoffs to no more than 57 positions. By each taking responsibility for financial stability, we can limit the pain. As Mayor of Detroit, I feel a special responsibility to set an appropriate example. Therefore, I will cut my office budget by \$2 million and take a 20 percent reduction in my own pay. And I will ask all other elected officials in our city to do their part. We should ask no greater sacrifice from our frontline workers than we are willing to impose on ourselves.

### **FINANCIAL LEADERSHIP / NEW CONTROLS / NEW ACCOUNTABILITY**

While cutting the cost of city government to help put Detroit's financial house in order, we must also ensure that we properly manage every dollar that comes in and every dollar that goes out. To enable City officials to routinely monitor Detroit's finances, my administration is making changes to ensure that our Finance and Budget departments can prepare timely financial statements that provide an accurate picture of Detroit's financial condition.

Furthermore, as we institute proper monitoring and management of City finances, I propose that we reengineer city services to make them more effective and efficient.

### **INCREASING REVENUE**

#### **Unlocking the Value of City Assets for its Citizens**

A principal strategy I propose for revenue enhancement involves the leasing of city assets to unlock their value for residents and taxpayers. This practice, which has succeeded in other cities, sells the right to the income generated by city operations over a contracted period of time in exchange for a lump sum payment. This is no different than a citizen winning the mega millions jackpot and taking a single lump sum payment immediately instead of a series of payments over many years. This transaction allows a person to get money when it is needed most. The city is in the same situation.

We believe it is possible to raise significant amounts of revenue by leasing the operation of city-owned assets. Our initial estimates indicate that Detroit could raise up to \$250 million by unlocking the value of three operations -- Municipal Parking, the Detroit-Windsor Tunnel and Public Lighting. Realizing the income of these operations does not in any way shape or form sell or transfer the ownership of those assets. The city of Detroit would retain ownership. Let me repeat that. The City of Detroit would retain ownership. We are not selling anything off.

We have identified other opportunities to increase city revenues. The City currently receives minimal revenue from more than 100,000 police-authorized tows annually. A review of the city's towing process conducted by the Office of the Auditor General resulted in two

recommendations: a fee increase and a change in the service delivery model. Implementing these changes could provide up to an additional \$5 million dollars in annual revenue. Contracting with a towing management company would save money. An additional benefit is the ability to free police officers from towing duty to do more vital police work.

I will hire a proven, reputable collection agency to collect fines and delinquent taxes that we have been unable to collect through our internal processes. We estimate the annual revenue from this action to be about \$10 million.

To allow time for questions, I've prepared a list of revenue-raising opportunities that will be considered. Some of them may be incorporated in the 2009 – 2010 fiscal year budget. I'm sure after your detailed review of this list, you will have additional questions. My team and I will be available to respond to your concerns.

Finally, we should note promising developments in Washington, which may help us and other U.S. cities overcome our current financial crisis. Earlier this month, I attended the U.S. Conference of Mayors meeting in Washington, D.C., as well as the inauguration of President Barack Obama. What I heard during my time in Washington, as well as in my personal conversations with President Obama during his campaign, convinced me that Detroit and other major cities have a friend in the White House. It is apparent that he understands the challenges and the opportunities of urban cities like ours.

I'm very pleased with the President's support of the economic recovery package working its way through Congress, and I have directed all relevant City departments to prepare a summary of infrastructure projects that would be eligible for immediate funding under that plan. I am determined that Detroit take full advantage of all available federal funding. However, we are not relying on funding from the Economic Recovery Act to assist us with this deficit reduction plan. We are responsible for our own future and we must be willing to help ourselves.

### SUMMARY

We must acknowledge that the Detroit of 2009 has different needs and demands than the Detroit of 1959. We have far fewer people, yet we manage city government as if nothing has changed. To improve our current condition and future outlook, we must take tough, smart and decisive action. The future of Detroit depends on strong leadership; leadership that does not hesitate to accept the reality of our condition and implement sound and effective strategies that address our challenges head on.

To this end, we are proposing to restore Detroit's financial stability. We will accomplish this through cost center elimination, operating efficiencies, and wage and salary concessions. If all of these steps are fully implemented, we can return Detroit to fiscal stability with minimal layoffs.

I look forward to a productive collaboration with this Honorable Body and our employees as we all work together to implement the critical steps that are in the best interest of Detroit.

This concludes my prepared remarks. I, along with Joe Harris, our CFO, would be happy to take your questions.

## **DEFICIT REDUCTION TIME LINE**

To ensure that the Cockrel Administration is accountable to the people of Detroit, we propose the following deficit reduction timeline:

- |          |   |
|----------|---|
| January  | <ul style="list-style-type: none"><li>• Request City Council approval of the deficit elimination plan</li></ul>   |
| February | <ul style="list-style-type: none"><li>• Request City Council approval for increases in parking fees and fines</li><li>• Request City Council approval for a restructuring of the police-authorized towing process</li><li>• Issue request for proposals for a dependent eligibility audit</li><li>• Issue request for proposals for firm to provide collections of delinquent fines, and taxes.</li><li>• Issue request for proposals for a police-authorized towing management company</li></ul> |
| March    | <ul style="list-style-type: none"><li>• Select a firm for a dependency audit</li><li>• Select a firm for the collection of delinquent fines, fees, and taxes</li><li>• Receive City Council approvals for increases in parking fees and fines</li><li>• Receive City Council approvals for the restructuring of the police-authorized towing process</li></ul>  |
| April    | <ul style="list-style-type: none"><li>• Complete preliminary review of DDOT operations</li><li>• Complete analysis of each cost-center</li><li>• Begin increases in parking fees and fines</li><li>• Select a management firm for the police-authorized towing process</li></ul>  |
| July     | <ul style="list-style-type: none"><li>• Towing management company begins operations</li><li>• Implement additional budgetary reductions pursuant to the adopted fiscal 2010 budget</li></ul>  |
| December | <ul style="list-style-type: none"><li>• Complete the negotiations for asset monetization and contract with the selected firms.</li></ul>  |

## **CITY OF DETROIT DEFICIT REDUCTION OPPORTUNITIES**

**DDOT and Health Care Efficiencies:** Identify savings opportunities that do not detract from the City's basic transportation and health care services.

**City Income Tax Operations:** Explore the feasibility of integrating the City's income tax processes with that of the State of Michigan, to improve services to taxpayers and to eliminate redundancies.

**Airport Subsidy:** Review RFP responses for a management contract for City Airport. A contract resulting from this proposal would save our taxpayers approximately \$1 million in annual subsidies.

**Dependent Eligibility Audits:** Conduct dependent eligibility audits to reduce costs related to coverage of ineligible dependents in the city's health care plans. Savings estimated at about \$1.5 million.

**Tunnel Income Monetization:** The Tunnel estimate is based on the present value of the forecasted cash flows at a moderate cost of capital for two of the organizations with which the City plans to negotiate.

**Parking Income Monetization:** The plan includes increases in parking meter and parking structure fees, parking fines, and towing fees.

**Public Lighting Income Monetization:** Although the City of Detroit does not currently have firm offers for the monetization of assets, these estimates correlate to similar transactions in other cities and current proposals made to the City of Detroit, which we are prepared to pursue as part of the City's comprehensive debt elimination strategy.

**Department of Administrative Hearings:** Incorporate more consistent collection procedures for fines and delinquent payments.

**Additional Reductions:** Develop a plan to eliminate or downsize other operations within city government during the next 10 weeks. Proposed reductions will be specified and included in the recommended budget for fiscal 2009-2010.

**Risk Management:** Review and evaluate processes to effectively reduce the city's liability.

**Other:** Explore public-private partnerships to refurbish City-owned buildings by developers. This may make these properties attractive for future sale and with potential revenues for the city.

**City of Detroit Deficit Elimination Plan  
January 2009  
(\$000s)**

|  | Description  | Revenues  | Eliminations | Concessions | Layoffs  | Operations | Year 2010<br>Totals | Year 2011<br>Additions | Year 2011<br>Totals |
|--|--|-----------|--------------|-------------|----------|------------|---------------------|------------------------|---------------------|
| Enhanced Collections of Fines and Taxes  | This plan recommends the utilization of a collection firm for collection of delinquent fines and taxes.  | \$ 10,000 | -            | -           | -        | -          | \$ 10,000           | -                      | \$ 10,000           |
| Increase in Fines                        | This plan recommends an increase in revenues from fines issued by the 36th District Court, Parking, Building and Safety Engineering, and the Department of Environmental Affairs.  | 4,000     | -            | -           | -        | -          | 4,000               | -                      | 4,000               |
| Increase Towing Fees/Contract Management | This plan recommends the contracting of the management of the Police-authorized towing process to free Police officers to do Policing duties; to provide for the City to collect the towing fees, to take ownership of abandoned vehicles, and to pay the vendors from the proceeds. | 5,000     | -            | -           | -        | -          | 5,000               | -                      | 5,000               |
| Parking                                  | The Parking system will implement a new boot program, and will also conduct a review of its operations to identify additional revenue opportunities.   | 600       | -            | -           | -        | -          | 600                 | -                      | 600                 |
| Health                                   | The Health Department will improve its processes for Medicaid reimbursements.  | 400       | -            | -           | -        | -          | 400                 | -                      | 400                 |
| Police Crime Lab                         | Elimination of Cost Center   | -         | \$ 4,400     | -           | -        | -          | 4,400               | -                      | 4,400               |
| Cobo Center Operations Reduction         | Elimination of Cost Center   | -         | 2,100        | -           | -        | -          | 2,100               | \$ 9,000               | 11,100              |
| Wage and Salary Concessions - Uniform    | 10% Wage and Salary Reduction  | -         | -            | \$ 25,000   | -        | -          | 25,000              | -                      | 25,000              |
| Wage and Salary Concessions- Civilians   | 10% Wage and Salary Reduction  | -         | -            | 23,000      | -        | -          | 23,000              | -                      | 23,000              |
| Appointees and Other Non-Union           | 10% Wage and Salary Reduction  | -         | -            | 600         | -        | -          | 600                 | -                      | 600                 |
| Fire                                     | Restructure administrative and managerial ranks. No fire fighters included among the layoffs.  | -         | -            | -           | \$ 1,500 | -          | 1,500               | -                      | 1,500               |
| ITS                                      | Downsize   | -         | -            | -           | 732      | -          | 732                 | -                      | 732                 |
| Human Rights                             | Downsize   | -         | -            | -           | 206      | -          | 206                 | -                      | 206                 |
| Law                                      | Downsize   | -         | -            | -           | 176      | -          | 176                 | -                      | 176                 |
| Board of Zoning Appeals                  | Downsize   | -         | -            | -           | 97       | \$ 11      | 108                 | -                      | 108                 |
| Auditor General                          | Downsize   | -         | -            | -           | 51       | 60         | 111                 | -                      | 111                 |
| Ombudsman                                | Downsize   | -         | -            | -           | 51       | 60         | 111                 | -                      | 111                 |
| Human Resources                          | Eliminate HRMS DRMS Division, reduce OEDS, no class/comp review  | -         | -            | -           | 1,594    | 532        | 2,126               | -                      | 2,126               |
| Department of Transportation             | Reduce subsidy, alter schedules for non-peak hours, fuel reduction strategies  | -         | -            | -           | -        | 10,000     | 10,000              | -                      | 10,000              |
| GSD                                      | Reduce seasonal grass-cutting for major parks to 10 day cycle; others 30 day   | -         | -            | -           | -        | 3,400      | 3,400               | -                      | 3,400               |
| Mayor's Office                           | Downsize   | -         | -            | -           | -        | 2,000      | 2,000               | -                      | 2,000               |
| City Council                             | Downsize   | -         | -            | -           | -        | 2,000      | 2,000               | -                      | 2,000               |
| Police                                   | Operational savings  | -         | -            | -           | -        | 1,570      | 1,570               | -                      | 1,570               |
| 36th District Court                      | Operational savings  | -         | -            | -           | -        | 1,500      | 1,500               | -                      | 1,500               |

**City of Detroit Deficit Elimination Plan**  
**January 2009**  
**(\$000s)**

|  | Description   | Revenues  | Eliminations | Concessions | Layoffs  | Operations | Year 2010<br>Totals | Year 2011<br>Additions | Year 2011<br>Totals |
|--|---|-----------|--------------|-------------|----------|------------|---------------------|------------------------|---------------------|
| Recreation   | Transfer funding of Crowell Rec Center to Block Grant   | -         | -            | -           | -        | 1,300      | 1,300               | -                      | 1,300               |
| DPW -  | Shift City engineering inspectors to seasonal   | -         | -            | -           | -        | 1,200      | 1,200               | -                      | 1,200               |
| GSD  | Reduce vacant lot cuts from 4 to 2  | -         | -            | -           | -        | 900        | 900                 | -                      | 900                 |
| Airport Private Operator   | Private operator  | -         | -            | -           | -        | 900        | 900                 | -                      | 900                 |
| Planning and Development   | Operational savings   | -         | -            | -           | -        | 700        | 700                 | -                      | 700                 |
| GSD  | Transfer 12 positions to Street Fund.<br>Reduce contractors.  | -         | -            | -           | -        | 700        | 700                 | -                      | 700                 |
| Non-department Subsidy Reductions                                      | Zoo, Historical, Charles A Wright Museum<br>of African American History   | -         | -            | -           | -        | 502        | 502                 | -                      | 502                 |
| GSD  | Operational savings   | -         | -            | -           | -        | 500        | 500                 | -                      | 500                 |
| City Clerk   | Operational savings   | -         | -            | -           | -        | 250        | 250                 | -                      | 250                 |
| Elections  | Operational savings   | -         | -            | -           | -        | 250        | 250                 | -                      | 250                 |
| Board of Ethics  | Operational savings   | -         | -            | -           | -        | 40         | 40                  | -                      | 40                  |
| Cable Commission   | Operational savings   | -         | -            | -           | -        | 19         | 19                  | -                      | 19                  |
| Merge City Income tax operators w/State                                | Merger  | -         | -            | -           | -        | -          | -                   | 1,000                  | 1,000               |
| Reduce Risk Management Costs   | Establish accountability within departments   | -         | -            | -           | -        | -          | -                   | 5,000                  | 5,000               |
| Less Reengineering Costs to Achieve<br>Operational Savings             | Estimated annual costs of reengineering to<br>effect savings.   | -         | -            | -           | -        | (2,000)    | (2,000)             | (2,000)                | (4,000)             |
| Total Increased Revenues and Savings to<br>Reduce Structural Imbalance |   | \$ 20,000 | \$ 6,500     | \$48,600    | \$ 4,407 | \$26,384   | \$ 105,901          | \$ 13,000              | \$ 118,901          |
| Monetization of Assets to Reduce<br>Accumulated Deficit                |   |           |              |             |          |            |                     |                        |                     |
| Tunnel   |   | -         | -            | -           | -        | -          | \$ 100,000          | -                      | -                   |
| Municipal Parking  |   | -         | -            | -           | -        | -          | 75,000              | -                      | -                   |
| Public Lighting  |   | -         | -            | -           | -        | -          | 75,000              | -                      | -                   |
| Totals from monetization of Assets                                     |   | -         | -            | -           | -        | -          | \$ 250,000          | -                      | -                   |
| <b>Revenues</b>  |   |           |              |             |          |            |                     |                        |                     |
| Collection Policy  | This plan incorporates a revenue collection strategy for delinquent fines and taxes.  |           |              |             |          |            |                     |                        |                     |
| Increases in Fines   | Fines and fees will be adjusted based on the consumer price index, consistent with surrounding communities.   |           |              |             |          |            |                     |                        |                     |
| Towing Management Contract   | This plan recommends the contracting for the management of the Police-authorized towing process, and the raising of towing fees sufficient to cover the City's towing-related costs.  |           |              |             |          |            |                     |                        |                     |
| Eliminations   | The Police crime laboratory has been closed. The City's obligation for subsidizing the cost of Cobo Center operations await City's Council's approval.  |           |              |             |          |            |                     |                        |                     |
| Concessions  | The City is requesting 10% wage and salary reductions from all employees to forestall the need for layoffs. The acceptance of the salary reductions would eliminate the necessity for layoffs of up to 1,000 employees and the resulting service cutbacks.  |           |              |             |          |            |                     |                        |                     |
| Layoffs  | This deficit elimination plan includes 51 layoffs: Human Resources (21), Fire Department (non-firefighters) (15), ITS Department (9), Human Rights (2), Board of Zoning Appeals (2), Auditor General (1), Ombudsman (1).  |           |              |             |          |            |                     |                        |                     |
| Operations   | DDOT operations will incur cutbacks after conducting route analyses and rider efficiency studies, and implementation of fuel savings and other cost-saving measures. Cutbacks in other department will result in decreased frequencies of seasonal services, as well as other external and internal service reductions. |           |              |             |          |            |                     |                        |                     |

City of Detroit  
Annual Cash Forecast  
July 1, 2008 to June 30, 2009  
Actual Balances Thru January 28, 2009

| Description  | Jul 2008      | Aug 2008      | Sep 2008      | Oct 2008      | Nov 2008     | Forecasted<br>Total<br>Dec 2008 | Forecasted<br>Total<br>Jan 2009 | Forecasted<br>Total<br>Feb 2009 | Forecasted<br>Total<br>Mar 2009 | Forecasted<br>Total<br>Apr 2009 | Forecasted<br>Total<br>May 2009 | Forecasted<br>Total<br>Jun 2009 | Forecasted<br>FY 2008-09<br>Total |
|--|---------------|---------------|---------------|---------------|--------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|-----------------------------------|
| Cash Balance Beginning   | 259,401,284   | 113,288,882   | 342,269,489   | 186,651,654   | 100,979,096  | 74,404,186                      | 100,522,348                     | 99,829,888                      | 112,310,170                     | 174,875,639                     | 36,150,546                      | (10,835,073)                    | 259,401,284                       |
| Property Tax   | 28,366,144    | 228,887,403   | 15,816,949    | 13,005,307    | 6,533,181    | 57,310,000                      | 158,328,242                     | 37,125,900                      | 7,551,339                       | 1,799,600                       | 222,182                         | 62,653,812                      | 617,600,059                       |
| Gas & Wtr Taxes  | 4,528,486     | 5,758,879     | 5,774,605     | 4,767,644     | 5,377,361    | 4,800,000                       | 4,800,000                       | 5,000,000                       | 5,500,000                       | 5,000,000                       | 4,596,446                       | 5,500,000                       | 61,403,431                        |
| Detroit Inc. Tax   | 21,345,000    | 18,620,000    | 21,410,000    | 21,855,000    | 15,790,000   | 24,335,000                      | 27,406,000                      | 20,000,000                      | 24,000,000                      | 28,000,000                      | 25,000,000                      | 21,805,000                      | 289,585,000                       |
| Utility Users Tax  | 3,029,196     | 3,224,259     | 359,333       | 3,049,232     | 3,183,734    | 5,000,000                       | 2,580,000                       | 5,000,000                       | 6,119,371                       | 6,500,000                       | 4,963,468                       | 5,658,080                       | 48,647,653                        |
| Dist. State Aid  | 44,516,000    | -             | 22,082,000    | 35,359,824    | -            | 37,857,985                      | -                               | 41,256,615                      | 46,012,871                      | -                               | 44,847,730                      | -                               | 271,933,025                       |
| Casinos/Wagering tax   | 15,215,000    | 19,910,000    | 14,525,000    | 14,045,000    | 23,595,000   | 18,485,000                      | 15,206,000                      | 13,806,000                      | 13,285,000                      | 15,400,000                      | 14,085,000                      | 12,960,000                      | 190,485,000                       |
| Note Proceeds - RANs   | -             | -             | -             | -             | -            | -                               | -                               | -                               | 40,000,000                      | -                               | -                               | -                               | 40,000,000                        |
| Note Proceeds - TANs   | -             | -             | -             | -             | -            | -                               | -                               | -                               | 90,000,000                      | -                               | -                               | -                               | 90,000,000                        |
| Other Borrowing  | -             | -             | -             | -             | -            | -                               | -                               | -                               | -                               | -                               | -                               | -                               | -                                 |
| Fiscal Stabilization Bonds                                     | -             | -             | -             | -             | -            | -                               | -                               | -                               | -                               | -                               | -                               | -                               | -                                 |
| Cash Held by Trustee U.S. Bank for Debt Service                | -             | -             | -             | -             | -            | 65,877,656                      | -                               | -                               | 57,474,864                      | -                               | 13,556,200                      | -                               | 136,908,520                       |
| Cash Held in Debt Service Sinking Fund                         | -             | -             | 14,415,070    | -             | -            | -                               | -                               | -                               | 1,503,070                       | 20,000,000                      | -                               | -                               | 35,918,140                        |
| Misc. Receipts   | 89,013,756    | 80,950,935    | 40,969,139    | 28,298,978    | 12,993,317   | 58,384,910                      | 46,215,907                      | 30,400,000                      | 36,300,000                      | 43,550,000                      | 36,300,000                      | 46,300,000                      | 549,676,942                       |
| Total Receipts   | 206,013,592   | 357,351,476   | 135,352,066   | 120,380,985   | 67,472,593   | 272,060,551                     | 254,514,149                     | 152,587,515                     | 327,728,315                     | 120,249,600                     | 143,571,026                     | 164,867,872                     | 2,312,137,770                     |
| Payroll Expense  | (23,930,794)  | (21,052,380)  | (17,778,720)  | (19,195,613)  | (19,474,463) | (28,317,772)                    | (17,330,836)                    | (21,000,000)                    | (21,000,000)                    | (24,000,000)                    | (21,000,000)                    | (21,000,000)                    | (255,080,378)                     |
| W/H Payments*  | (15,851,584)  | (19,845,285)  | (15,003,839)  | (21,594,190)  | (18,689,090) | (20,380,242)                    | (24,383,210)                    | (18,000,000)                    | (18,900,000)                    | (21,600,000)                    | (18,900,000)                    | (18,900,000)                    | (232,047,440)                     |
| Emp. Ben Plan (7500)   | (14,872,874)  | (15,681,246)  | (18,875,411)  | (18,517,898)  | (18,842,788) | (18,640,368)                    | (19,275,034)                    | (19,000,000)                    | (19,000,000)                    | (19,000,000)                    | (19,000,000)                    | (19,000,000)                    | (219,705,619)                     |
| Tax Distributions  | (65,500,000)  | (13,000,000)  | (157,025,000) | (16,000,000)  | (3,000,000)  | (16,000,000)                    | (87,080,533)                    | (20,419,245)                    | (4,153,236)                     | (989,780)                       | (122,200)                       | (34,459,597)                    | (417,749,591)                     |
| Subsidies DOT (5301)   | (12,100,000)  | (11,000,000)  | (2,500,000)   | (13,000,000)  | -            | -                               | (8,300,000)                     | (7,500,000)                     | (6,000,000)                     | (6,000,000)                     | (6,300,000)                     | (6,885,466)                     | (79,585,466)                      |
| DIT Refunds  | (937,885)     | (3,069,847)   | (1,576,864)   | (1,766,602)   | -            | (1,250,000)                     | (3,631,404)                     | (900,000)                       | (2,200,000)                     | (2,975,060)                     | (3,296,396)                     | (1,754,567)                     | (23,358,625)                      |
| Debt Service   | -             | (142,988)     | (31,437,244)  | (19,680,545)  | (2,269,270)  | (86,991,152)                    | -                               | (1,562,988)                     | (18,312,502)                    | (126,784,853)                   | (36,624,270)                    | (37,686,696)                    | (361,482,510)                     |
| Note Debt Service - RANs                                       | -             | -             | -             | -             | -            | -                               | -                               | -                               | (40,963,726)                    | -                               | -                               | -                               | (40,963,726)                      |
| Note Debt Service - TANs                                       | -             | -             | -             | -             | -            | -                               | -                               | -                               | (92,041,381)                    | -                               | -                               | -                               | (92,041,381)                      |
| 2008-09 DSA Transferred to Trustee for Debt Service            | (44,516,000)  | -             | (22,082,000)  | (35,359,824)  | -            | (16,744,489)                    | -                               | -                               | -                               | -                               | (39,915,000)                    | -                               | (158,617,313)                     |
| 2008-09 Casino Revenue transferred to Trustee for Debt Service | -             | -             | -             | -             | -            | -                               | -                               | -                               | (865,000)                       | (15,400,000)                    | (14,085,000)                    | (12,950,000)                    | (43,300,000)                      |
| Misc. Disbursement   | (56,912,829)  | (43,085,117)  | (22,986,294)  | (59,265,352)  | (29,734,684) | (57,608,366)                    | (93,480,792)                    | (50,000,000)                    | (40,000,000)                    | (40,500,000)                    | (29,588,780)                    | (30,436,370)                    | (563,588,584)                     |
| Pension Contribution- General                                  | (14,211,443)  | (1,484,016)   | (1,704,559)   | (1,673,519)   | (2,037,207)  | -                               | (1,725,000)                     | (1,725,000)                     | (1,725,000)                     | (1,725,000)                     | (1,725,000)                     | (3,450,000)                     | (33,195,745)                      |
| Pension Contribution- P&F*****                                 | (103,292,575) | -             | -             | -             | -            | -                               | -                               | -                               | -                               | -                               | -                               | (40,869,000)                    | (144,151,575)                     |
| Pension Contribution- P.O.C.                                   | -             | -             | -             | -             | -            | -                               | -                               | -                               | -                               | -                               | -                               | -                               | -                                 |
| Total Disbursements  | (352,125,985) | (128,370,879) | (290,969,931) | (206,053,543) | (94,047,502) | (245,932,389)                   | (255,206,610)                   | (140,107,233)                   | (265,160,846)                   | (258,974,693)                   | (190,556,646)                   | (227,381,698)                   | (2,654,887,954)                   |
| Ending Cash Balance  | 113,288,892   | 342,269,489   | 186,651,654   | 100,979,096   | 74,404,186   | 100,522,348                     | 99,829,888                      | 112,310,170                     | 174,875,639                     | 36,150,546                      | (10,835,073)                    | (83,348,899)                    | (83,348,899)                      |

W/H Payments include all funds withholdings. They later reimburse the General Fund (Receipts would be in Misc. Receipts)  
Effective January 5, 2009 \$27 million set-aside for payment of 800 Mhz Lawsuit settlement.  
Cash Balance does not include the \$27 million.

Casino Revenue pledged to pay back Short Term Loan \$130 million borrowed in March 2009